



*1000 River Street
Mail Stop 966A
Essex Junction, VT 05452*

July 14, 2008

Mr. Walter Poor
Vermont Department of Public Service
112 State Street, Drawer 20
Montpelier, VT 05620-2601

Dear Mr. Poor:

International Business Machines Corporation (IBM) provides the following comments in response to the Department of Public Service's July 3 version of the EEU structure Draft Recommendation.

As reflected in the changes to the introductory paragraph, disagreement remains among the parties on key aspects of the document. IBM is not endorsing a shift to an appointment model for the EEU. The competitive nature of the contract approach creates strong incentives for responsiveness, innovation, cost control, and accountability for results. If appointment is chosen, these benefits of competitive bidding must be retained via rigorous performance metrics and evaluations, frequent reconsideration of appointment, and a balance of financial risk and reward that simulates market conditions.

The potential twelve-year appointment proposed in the Draft Recommendation is too long. The energy efficiency sector of the economy is now expanding rapidly as energy prices escalate, and we can expect the pool of potential providers to grow. While going to the market always involves some time, effort, and expense, better value can often be found through this process, even when the incumbent is performing satisfactorily. With significant changes in energy efficiency technology also underway, Vermont should not implement an EEU model now that would preclude other choices for many years to come and deprive ratepayers of associated benefits.

An entity that is well suited to deliver efficiency resources now may not be the best choice for Vermont as conditions change. If the appointment model is selected, the current three-year cycle for reconsideration should be retained, with an option for the Public Service Board to extend the term, via an opt-out mechanism, to a maximum total of six years without competitive solicitation.

Under the appointment model, a timely and robust performance assessment process becomes even more important than in a contract context. Establishing the correct

Quantitative Performance Indicators (QPIs) will be critical. A stronger focus on the efficiency and cost-effectiveness of the EEU is needed. Administrative efficiency should be included in Part II(3)(B) as one of the QPIs to be developed by the Board, along with other indicators. It is not necessary to assign specific administrative efficiency QPIs at this point in the process.

Regarding the Department's changes to the Energy Efficiency Charge (EEC) section, the alternative funding contemplated here would be specifically developed to offset the EEC, and thus should not increase the overall budget. Any changing circumstances that would drive either an increase or decrease in overall EEU spending should be addressed in budget proceedings before the Board.

Thank you for your consideration of these recommendations. If you would like to discuss any of these ideas further, please contact me at jmdoyle@us.ibm.com or (802) 769-4706.

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Sincerely,

Janet Doyle

Janet Doyle
IBM Energy & Environmental Programs

cc: EEU E-mail Service List